

South Carolina Board of Economic Advisors

Statement of Estimated State Revenue Impact

Date: April 1, 2008 **Bill Number:** H.B. 4759

Author: House Labor, Commerce and Industry Committee

Committee Requesting Impact: House Labor, Commerce and Industry Committee

Bill Summary

A bill to amend Section 38-27-40, of the Code of Laws of South Carolina, 1976, relating to the persons covered under the provisions of the "Insurers Rehabilitation and Liquidation Act", so as to provide that Chapter 27, Title 38 does not apply to certain associations defined in Section 38-38-730; to amend Section 38-38-430, relating to the governance of fraternal benefit societies by Chapter 38, Title 38, so as to provide that certain associations in which members are active or retired military officers or enlisted personnel are exempted from the provisions of Chapter 38; and to amend Section 38-38-730, relating to exemption from the regulation of certain associations and societies by the Department of Insurance, so as to add a certain association in which members are active or retired military officers or enlisted personnel.

REVENUE IMPACT ^{1/}

This bill is not expected to impact state General Fund insurance tax revenue in FY2008-09.

Explanation

This bill would amend Section 38-27-40 to not protect the owners or managers of specific insurance associations organized before 1880 against claims arising from that business now or in the future. This bill would amend Section 38-38-430 and add Section 38-38-730(8) to exempt from the insurance laws of this State an association which was organized before 1880 with a principal purpose of providing insurance and other benefits to its members and their dependents or beneficiaries. Its members are officers or enlisted, regular or reserve, active, retired, or honorably discharged members of the Armed Forces or Sea Services of the United States. According to the U.S. Department of the Treasury, Internal Revenue Code 501(c)(23) provides a tax exempt status for associations if they were organized prior to 1880; if more than 75 percent of the members of which are past or present members of the Armed Forces; and the primary purpose of which is to provide insurance and other benefits to veterans or their dependents. Internal Revenue Code 501(c)(23) was added to the Code by P.L.97-248 in 1982 and was proposed on behalf of the Army Mutual Aid Association and the Navy Mutual Aid Association. According to the Internal Revenue Service, these two Mutual Aid Societies are the only organizations known to qualify under this revenue code section. The Army Mutual Aid Association is a nonprofit mutual aid association established in 1879 after the Battle of Little Big Horn, or "Custer's Last Stand", to raise funds for the soldier's surviving families in need. In 1987 the name was changed to Army and Air Force Mutual Aid Association after eligibility was extended to USAF officers. The Navy Mutual Aid Association is a nonprofit mutual benefit Veterans Service Organization established in 1879 to provide financial protection to the sea service (Navy, Marine Corps, Coast Guard U.S. Public Health Service, and National Oceanic and Atmospheric Administration) members and family. According to representatives with the Department of Insurance, the Army and Air Force Mutual Aid Association and the Navy Mutual Aid Association are not registered or licensed to conduct insurance business in the state of South Carolina. Since the Board of Economic Advisors' General Fund insurance tax revenue estimate does not include revenue from these two mutual aid associations, there is not expected to be any impact from the exclusion of insurance taxes from this legislation.

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^{1/} This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.